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September 15, 2014

The Honorable Mel Watt
Director, Federal Housing Finance Agency
4000 7th St SW, Ninth Floor
Washington, D.C. 20024

Re: FHFA Strategic Plan

Dear Director Watt,

Thank you for the opportunity to comment on FHFA's strategic plan for the fiscal years 2015-2019. The Center for American Progress greatly appreciates the many opportunities you have provided for stakeholders to provide input into the agency's decisions and overall direction.

Importantly, the strategic plan acknowledges the vastly different posture of the Enterprises in 2014 compared to 2008. As the conservatorship enters its seventh year, with the Enterprises once again financially stable and serving as a linchpin of the nation's housing market, no one can reasonably view this arrangement simply as a short-term bridge to receivership. For that reason, we believe it is appropriate for FHFA to take a comprehensive and pro-active approach to meeting the market's needs.

Although thankfully the worst of the crisis is behind us, the housing recovery remains fitful and uneven, with many communities still experiencing severe distress, including continuing foreclosures and vacant homes. At the same time, certain populations, including people of color, low-income people, and Millenials, are experiencing difficulties in obtaining credit, which not only hampers their ability to participate in the benefits of sustainable homeownership, but also holds back the market's recovery.

As the draft strategic plan acknowledges, one of the main responsibilities of FHFA is to "foster liquid, efficient, competitive, and resilient national housing finance markets," including support for low- and moderate-income families. The plan demonstrates a commitment to this mission through its stated goals, means, and strategies. Below, we review a few of the plan's stated goals and suggest some additional ways the agency can further those goals.

"[P]rovide homeownership opportunities to creditworthy borrowers . . . ." and "Ensuring that . . . creditworthy eligible borrowers have fair and equitable access to the financial services offered by the regulated entities."

We are pleased to see Performance Goal 2.3 include the language quoted above. A healthy housing market requires broad access to credit for a wide range of borrowers to purchase homes in all geographic locations, with credit being made available by financial institutions of all sizes.

In particular, we support FHFA's focus on promoting policies and practices that provide fair and equal access for all qualified borrowers. As the strategic plan notes, clarity about origination and servicing obligations is an important part of this work. We are especially pleased to see FHFA focusing on pricing through its initiatives around guarantee fees and private mortgage insurance eligibility requirements; the way pricing is approached will make a critical difference in determining whether borrowers can access mortgage credit at affordable terms.

We suggest two additional strategies that help FHFA more effectively meet its goal of enabling fair and equitable access to affordable mortgage credit:

1. *Learn from Fannie Mae's and Freddie Mac's past efforts to promote access to affordable mortgage credit.*

While we support asking the Enterprises to "assess whether there are additional opportunities to reach underserved creditworthy borrowers," we believe that for this effort to be most effective, FHFA should instruct the Enterprises to conduct detailed analyses of Fannie and Freddie's past efforts to promote access to affordable mortgage credit.

For example, prior to conservatorship, the Enterprises undertook diverse efforts to promote access to affordable mortgage credit. Both Enterprises introduced flexible underwriting standards for single-family borrowers, including both their core affordability products (Community Home Buyers/MyCommunityMortgage and Affordable Gold/HomePossible) and other specialized products that met the particular needs of borrowers, such as SmartCommute and Construction-to-Permanent mortgages. The Enterprises also piloted new products and conducted underwriting experiments to determine how to responsibly increase access to credit. And the Enterprises worked to serve harder-to-serve markets, such as community land trusts, tribal lands, and small multifamily properties.

The Enterprises also partnered with diverse entities in support of their affordable housing mission, such as partnering with local organizations and housing industry participants to introduce new loan products or offer housing and credit counseling. Both Enterprises also partnered with Housing Finance Agencies and purchased seasoned Community Reinvestment Act loans. Fannie Mae also invested in Community Development Financial Institutions and affordable housing development projects.

Knowing more about the successes of and obstacles encountered in previous efforts will better inform renewed efforts. Such analysis also supports the strategic plan's commitment to conduct independent studies and reports. We encourage FHFA to be transparent with their findings about past Enterprise programs.

2. *Release performance data for all loans purchased by the Enterprises.*

For external stakeholders working in the housing finance field, and particularly for public interest organizations that lack the funding to purchase proprietary datasets, it has been incredibly useful that the Enterprises have released loan characteristic and performance data on a large number of their acquisitions.[1] Unfortunately, the data released so far is limited to single-family, 30-year, fixed-rate, full documentation, fully amortizing mortgages. The Enterprises have not released performance data about their nontraditional loan acquisitions, ARM purchases, or many of their targeted initiatives or

[1] See Freddie Mac's Single Family Loan-Level Dataset at http://www.freddiemac.com/news/finance/sf_loanlevel_dataset.html and Fannie Mae's Single-Family Loan Performance data at http://www.fanniemae.com/portal/funding-the-market/data/loan-performance-data.html

underwriting experiments. As a result, the public cannot study the significant lessons about how to responsibly broaden access to mortgage credit that such data could offer.

We suggest that FHFA permit the Enterprises to release data on all loans purchased by the Enterprises. This data should be similar to that provided previously, but also include loan type (e.g. FHA, VA, Conventional), special program if any (e.g. HARP, MyCommunityMortgage, CRA loan purchases), estimated property value (sale price for purchase, appraisal for refinances), documentation type, and points and fees (or at a minimum whether there was any interest rate buy down). They should also release data about the nature and performance of the Enterprises' underwriting experiments and non-traditional investments in affordable housing, including their investments in CDFIs, their mortgage revenue bond credit enhancements, and their acquisition, development, and construction loan participations.

"[Provide] affordable rental housing options."

We strongly support FHFA's initiatives aimed at focusing Enterprise multifamily work on the affordable and underserved segments of the market. We believe the following additional strategy will complement that work and reach particularly underserved markets:

1. *Capitalize the Housing Trust Fund and Capital Magnet Fund.*

The same legislation that created FHFA also provided for Fannie and Freddie to capitalize the Housing Trust Fund and Capital Magnet Fund. FHFA, however, prohibited the companies from doing so after they entered conservatorship. While this prohibition may have been justified when the Enterprises were drawing on taxpayer funds to stay afloat, now that they have returned to profitability, there is no justification for continuing the prohibition.

Even as other parts of the housing market begin their recovery, the situation for very low-income renters remains dire. These families continue to pay far more of their income toward housing than is considered affordable, stretching their budgets and leaving them less for food, health care, and other necessities.[2] The Trust Fund and Magnet Fund are one of the only ways that the system can serve this market, and is a necessary component of FHFA program to focus on the affordable segment of the multifamily market.

" [Provide] sensible and appropriate loss mitigation options when borrowers fall into economic distress . . . "

We are also pleased that FHFA has committed to developing and actively promoting home retention and loss mitigation programs. We strongly support the agency's Neighborhood Stabilization Initiative, and we encourage FHFA build on the Servicing Alignment Initiative and particularly to focus on creating post-HAMP loss mitigation standards as soon as possible.

We suggest three additions to the strategic plan that will better enable FHFA to promote home retention and loss mitigation:

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[2] Harvard Joint Center on Housing Studies, "State of the Nation's Housing: Housing Challenges," (2014), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-ch6.pdf

1. *Ensure that non-performing loan sales actively promote home retention and neighborhood stability.*

Between them, Fannie Mae and Freddie Mac hold close to 700,000 seriously delinquent loans.[3] Many of these loans have languished for years, with foreclosures in process or imminent. Observers have long speculated that Fannie and Freddie would sell these loans to investors at a discounted rate to minimize Enterprise losses, as the Federal Housing Administration, or FHA, has been doing. Confirming this speculation, this past August, Freddie Mac auctioned its first pool of nonperforming loans.[4]

We encourage FHFA to follow the example set by FHA in making home retention and neighborhood stability an explicit goal for any further Enterprise note sales. In particular, we recommend that FHFA impose on purchasers meaningful post-sale requirements aimed at home retention and neighborhood stabilization, including an explicit loss-mitigation waterfall; encourage sales to non-profit or other entities who will prioritize these goals; and collect and regularly share data on outcomes.[5] Especially given strong investor demand for nonperforming loans,[6] we do not think such requirements would unduly impact investor bids for the loans.

2. *Permit HAMP PRA principal reductions on loans guaranteed by Fannie Mae and Freddie Mac.*

We are encouraged by the draft strategic plan's commitment to "develop and actively promote home retention and loss mitigation programs." Unfortunately, FHFA still prohibits the Enterprises from engaging in one of the most effective forms of loss mitigation: principal reduction. Numerous studies have demonstrated that principal reductions help keep troubled borrowers in their homes more effectively than loan modifications alone.[7] Additionally, the Congressional Budget Office has estimated that allowing principal reductions through HAMP on loans guaranteed by the Enterprises would result in savings for the taxpayer.[8] Lifting this prohibition and accepting the Treasury Department's offer to

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[3] Federal Housing Finance Agency, "Foreclosure Prevention Report: May 2014" (2014), available at http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/ForeclosurePreventionReportMay2014FINAL.pdf

[4] Nick Timiraos, "Freddie Mac to Sell $659 Million in Defaulted Home Loans Sale is a First for the Mortgage Finance Giant Under Government Control," The Wall Street Journal, August 1, 2014

[5] To view CAP's full recommendations on how FHA should improve the DASP program, see Sarah Edelman, Julia Gordon, and Aashna Desai, "Is the FHA Distressed Asset Stabilization Program Meeting its Goals?" (Center for American Progress: 2014), available at http://www.americanprogress.org/issues/housing/report/2014/09/05/96531/is-the-fha-distressed-asset-stabilization-program-meeting-its-goals/

[6] Heather Perlberg and John Gittelsohn, "Hedge Funds Boost Bad-Loan Prices as U.S. Sales Increase," Bloomberg News, August 11, 2014.

[7] See, e.g., Standard and Poor's, "The Best Way To Limit U.S. Mortgage Redefaults May Be Principal Forgiveness," (2012) available at http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245335672295; Andrew Haughwout, Ebiere Okah, and Joseph Tracy, "Second Chances: Subprime Mortgage Modification and Re-Default" Federal Reserve Bank of New York Staff Reports (2010), available at http://www.newyorkfed.org/research/staff_reports/sr417.pdf; Roberto G. Quercia and Lei Ding, "Loan Modifications and Redefault Risk: An Examination of Short-Term Impacts" *CityScape* (2009), available at http://ccc.unc.edu/contentitems/loan-modifications-and-redefault-risk-an-examination-of-short-term-impacts/

[8] Congressional Budget Office, "Modifying Mortgages Involving Fannie Mae and Freddie Mac: Options for Principal Forgiveness" (2013), available at http://www.cbo.gov/publication/44115

participate in the investor incentives for HAMP Principal Reduction Alternative loans should be an FHFA priority.

3. *Extend the Home Affordable Refinance Program (HARP) so that its conclusion is coterminous with the conclusion of the Home Affordable Modification Program (HAMP).*

We are pleased to see FHFA engaging in extensive public outreach to promote the use of the HARP program, which can help borrowers save money, alleviate economic distress, and prevent default. Currently, HARP is scheduled to expire at the end of 2015, while the HAMP modification program has been extended at least until 2016. We would like FHFA to ensure that HARP will continue to be available to borrowers as long as HAMP is available, which will align borrower incentives by continuing to provide assistance to borrowers who are paying their loans regularly as well as to those borrowers who can no longer afford their loan.

In conclusion, we would like once again to recognize FHFA for its continued service to the nation's housing market and for its intensified outreach to all stakeholders. We look forward to a continued, productive discussion as implementation of this strategic plan takes place.

Sincerely,

Julia Gordon

Director, Housing Finance and Policy
Center for American Progress